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C O N F I D E N T I A L SECTION 01 OF 02 DJIBOUTI 000711

SIPDIS

STATE FOR AF, AF/E, AND AF/EPS  
CJTF HOA PASS MARCENT

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SUBJECT: EXXON-MOBIL NOTIFIED OF TERMINAL CLOSURE AND LEAD  
ROLE FOR ENOC'S HORIZON LTD.

Classified By: AMBASSADOR MARGUERITA D. RAGSDALE.  
REASONS 1.4 (B) AND (D).

¶1. (C) Summary: Exxon-Mobil has received notification that it must terminate its operations at the existing port effective May 2005 and relocate to the new Doraleh port. Storage tanks would be available at the new port for either rent or a possible shareholding arrangement with Horizon Terminals Ltd. of Dubai, which would manage the new oil terminal. Exxon-Mobil's representative in Djibouti shared with Ambassador his angst over the notification and will be consulting with offices in Addis Ababa and in Fairfax to decide on next steps. A number of issues remain unresolved, including compensation -- if any -- to the company for loss of its existing facility. Ethiopia may have interest in a stake in Doraleh, but this would not appear to be welcome news for Doraleh shareholders. End summary.

¶2. (C) In a meeting with Ambassador and DCM at the Ambassador's residence May 15, Alain Adam, Director General of Exxon-Mobil operations in Djibouti (Mobil), shared two letters his company had received on the future of Mobil's oil storage facilities at the existing port of Djibouti. The first, dated 10 May 2004 from Abdurahman Boreh, in Boreh's capacity as Chairman of Djibouti Ports and Free Zones Authority, gave "official notice" that Mobil's existing oil terminal at Djibouti's port would be closed effective May 2005. The letter went on to state that the move had become necessary for security and environmental reasons, that this was a "final notice," and that services after the closure "will be provided by the new oil terminal at Doraleh Port." (Note: Boreh, who is close to President Guelleh, is a prominent Djiboutian businessman with a 40 per cent stake in Doraleh port. Construction of Doraleh port is being managed by Emirates National Oil Company (ENOC), and its shipping and terminalling subsidiary Horizon Terminals Ltd. (Horizon) will control the oil terminal. End note)

¶3. (C) The second letter, from Elmi Obsieh Waiss, Minister of Equipment and Transport, was also dated 10 May. It, too, confirmed the changeover date of May 2005 and the decision of the government of Djibouti to relocate petroleum activities to the new port at Doraleh. Waiss's letter asked Mobil to "take all arrangements necessary to conform to this new organization." Total and Shell directors in Djibouti, according to Adam, received the same letters.

¶4. (C) Adam complained that the letters made no mention of how Mobil, Shell or Total would be compensated for their facilities at the existing port or what would happen to current employees working for the companies in Djibouti. He said he would be meeting with Waiss for further explanation and would follow that meeting with consultations in Addis Ababa with Mobil offices there and with Fairfax headquarters.

¶5. (C) Ambassador told Adam she would speak to Boreh directly to find out more details about the content and implications of the letters, and reached him by telephone in Dubai. In an extended conversation, Boreh stated that for the past three years the Government of Djibouti had been telling Mobil that its terminal facility at the existing port must be moved because of pollution caused by leakage from containers belonging to the oil companies. He said Mobil had also been told of the intention of the Government to build a new oil terminal facility at Doraleh, and indeed, had been invited to invest in the project. "Mobil expressed no interest in investing in this new facility," Boreh said. "None of the oil companies expressed interest, except Total initially. They thought we were bluffing and that we would never build such a facility. Well they were wrong," he said.

¶6. (C) Boreh added that the shift in terminals is occurring primarily because of the leakage of oil from the existing aging tanks. It was important for Mobil and the others to understand, he said, that there is no plan to create a monopoly in oil services and facilities in Djibouti. Horizon will not do trading in oil. It will only do storage in Djibouti and Mobil and other oil companies will be obliged to rent storage tanks from Horizon. It is not in Djibouti's interest, he continued, to have such a monopoly. "We are not here to close down the business of Mobil, but merely to upgrade operations." Boreh told Ambassador that the cost of

renting storage from Horizon is an issue that can be discussed as well as the possibility of shareholding in the same storage facilities. He said he expected overall cost of operations for the oil companies to decline with the reduced labor force requirement resulting from the shift. Ambassador subsequently conveyed to Adam the content of her conversation with Boreh.

17. (C) In a follow-up, Adam informed Ambassador that he, along with Total and Shell representatives, met with Waiss on May 18. It was a short meeting. In a nutshell, Adam said, Waiss told the group of the need to move their operations because of pollution over the preceding years, including damage to the existing port facilities. (Note: Adam acknowledges pollution, but said Mobil has been engaged in vigorous clean-up operations at the port. End note) Adam said he asked Waiss what the Government of Djibouti intended to do about employees who would lose their jobs at the current facilities and who were already circulating Waiss's letter. Adam said Waiss had replied that if his letter was being circulated, it is because the oil companies had released it, not the Government of Djibouti. In any case, Djiboutian employees are "our problem, not yours," Waiss reportedly told the group.

18. (C) Comment: Adam has made no effort to hide his angst over the demand broached by Boreh and the government but has perhaps been less aggressive in efforts to learn more about the Doraleh project (currently well underway as septel reports) or to figure creative ways Mobil might profit from the proposed new arrangement. This might call his effectiveness into question. We believe the Government is serious about its intent to close the existing terminal and were told the new facility is scheduled to come on line in May 2005. We do not believe, however, that the Government has considered the issue of compensation for this American company or for others affected. Boreh told Ambassador that a consultant will look at the matter of what happens to both the land under the existing terminal facility and the compensation issue and make recommendations to the Government of Djibouti. Meanwhile, Adam is enroute to Addis Ababa and expects to have shortly views of his organization on recommended and preferred next steps here in Djibouti. Embassy is ready to assist, in consultation with Mobil.

19. (C) Comment continued for Embassy Addis Ababa: According to Boreh, Ethiopia has asked for a stake in the Doraleh facility, but it is unclear how it would finance participation. Boreh was less than enthusiastic, we might add, about such a partnership, even if it were possible. He said the Ethiopians are far too difficult people with whom to work. End comment.  
RAGSDALE